

Drug Intelligence Brief



DRUG ENFORCEMENT ADMINISTRATION
INTELLIGENCE DIVISION

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MONEY LAUNDERING IN PANAMA



Financial Overview

Panama has been placed on the U.S. Department of State's list of "countries of primary concern" for money laundering. Panama has well-developed trade centers and a sophisticated financial sector, which includes the fastest growing stock market in Latin America. These factors, along with inadequate financial crimes enforcement, continue to make Panama a prime location for money laundering and other financial crimes. However, Panama has recently made progress in the fight against money laundering and financial crimes, as evidenced by the gradual movement of illicit financial activities to Guatemala and Ecuador.

Legislation

A U.S.–Panamanian Extradition Treaty, in place since May 1905, still exists, but is rarely invoked.

Panama is a party to the 1988 United Nations (U.N.) Convention, the 1961 Single Convention on Narcotic Drugs and its 1972 Protocol, and the 1971 Convention of Psychotropic Drugs.

On December 2, 1993, Panama ratified the U.N. Convention.

In 1995, Panama enacted new legislation to strengthen the existing anti-money laundering policy to fulfill its obligations under the 1988 U.N. Conventions.

The U.S.–Panamanian Mutual Legal Assistance Treaty (MLAT), which was ratified by the Government of Panama in 1991, was put into effect in 1995.

In 1995, the U.S. Government signed five new letters of agreement for counterdrug cooperation with the Panamanian Government.

In 1995, legislation was passed which established the Private Interest Foundation (PIF) in order to assist foreign investors in the protection of their assets. The legislation states that all persons involved in activities of transactions, related in any way to the PIF, must maintain confidentiality. Not doing so is punishable by 6 months in prison and a fine of US\$50,000, as well as the potential for civil liability. Therefore, the PIF was established to attract foreign capital investment, in exchange for which it provides investors with secrecy, asset protection, and tax exemptions.

In 1997, Panama became the first Latin American country to join the Egmont Group, an alliance of over 30 nations having centralized Financial Analysis Units (FAUs) to combat money laundering.

In June 1998, the Government of Panama enacted a banking reform that would bring Panama, into line with the international banking standards of the Basel Accord. This reform increased supervision and imposed stringent financial controls on Panamanian banks.

In 1998, the Government of Panama enacted legislation regulating gaming enterprises in Panama, and included measures to hamper money laundering. These measures included intelligence requirements for deposits of over US\$10,000 and for the structuring of transactions. The gaming industry in Panama was privatized in 1998.

Panama participates in the Basel Committee's Offshore Group of Bank Supervisors.

Panama actively participates in the Caribbean Financial Action Task Force (CFATF).

Panama has Bilateral Agreements on drug trafficking with Colombia, Cuba, Mexico, Peru, and the United Kingdom.

Panama has MLAT agreements with Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the United Kingdom.

Panama enacted legislation in 2000 that increases the predicate offenses for money laundering and expands the intelligence requirements for financial institutions. The anti-money laundering law, formerly only applicable to drug trafficking, now applies to 10 predicate crimes, including funds obtained through fraud, illegal arms trafficking, immigrant smuggling, kidnapping, extortion, embezzlement, bribery, international vehicle smuggling, and terrorism.

The Government of Panama issued executive decrees in 2000 that allowed international information-sharing and improved domestic information-sharing methods.

Legislation enacted in 2000 increases the scope of customer identification and suspicious transaction intelligence requirements. Now, not only banks but mutual trusts, currency

exchange houses, money transmitters, bond and cooperative markets, savings and loan cooperatives, stock and bond markets, stockbrokers, and investment advisors must report suspicious transactions and comply with Know-Your-Customer policies. The employees of these institutions are required to exercise due diligence when encountering suspicious financial activity. They must also identify the true owner or beneficiary of accounts to the FAU—when requested to do so.

Panama has a program by which foreign investors can obtain a Panamanian passport, essentially allowing them to conceal their true citizenship. On May 22, 2002, Panama signed and ratified the International Convention for the Suppression of the Financing of Terrorism.

Memoranda of Understanding (MOU) with regard to money laundering continue to exist between Panama and the following countries: Belgium, Brazil, Colombia, Costa Rica, El Salvador, England, France, Germany, Paraguay, Spain, the United States, and Venezuela. In 2002, MOUs were signed between Panama and the following countries: Croatia, the Dominican Republic, Guatemala, Honduras, Italy, Mexico, and Monaco. Thus far in 2003, MOUs have been signed between Panama and the following countries: Argentina, Bulgaria, and Russia.

Proposed Legislation

Panama is presently negotiating a tax-information treaty with the United States, and is improving anti-terrorist money laundering legislation. Panama's cooperation with the United States, regarding the examination of suspicious bank accounts, has improved markedly with the enactment of the 2000 legislation. According to Panama's FAU, during the first half of 2002, reports of suspicious financial transactions increased substantially over previous years. This increase reflects better controls on international transactions.¹

In June 2003, the legislative assembly passed a bill establishing stricter controls over transmitter companies, such as Western Union and Moneygram. The impetus of this legislation is to prevent terrorists from using these companies to move funds. The president is expected to sign the bill.

Drug Law Enforcement Efforts

With 1,751 merchants, and exports of approximately US\$11 billion each year, Panama's Colon Free Zone (CFZ) is the largest free zone in Latin America, and the second-largest in the world. It is a key transit site for international money laundering, attracting both legitimate and illicit funds due to favorable interest rates.

Panama still appears to lack the political will and the resources to fully enforce the anti-money laundering laws that it enacted in 2000. However, in recent years, information-sharing and joint law enforcement activities between Panama and the United States have

¹ *The Economist Intelligence Unit, Country Report Panama, September 2002, Main Report, September 1, 2002.*

increased. The United States enjoys excellent relations with anti-money laundering authorities throughout Panama.

A 2-year action plan to root out “dirty money” in Panama will increase public confidence in the financial sector by cleaning up the banking community. The plan will also target money laundering in the free trade zone, casinos, and other gambling establishments. The program also includes continued information sharing with U.S. law enforcement agencies.²

According to speakers at the August 2002 Institute of Autonomous Panamanian Cooperatives Second Annual Roundtable on Money Laundering, the *cooperativas* are vulnerable to use by money launderers. (*Cooperativas* are similar to credit unions and savings-and-loan establishments.) The speakers called for more vigilance in order to lessen the impact that money laundering and possible government-imposed sanctions would have had on them and their members.

Money Laundering Methods

It is difficult to estimate the amount of bulk currency taken into and out of Panama, although it is believed to be substantial. DEA intelligence indicates that large amounts of U.S. currency are being smuggled into Panama from Colombia, Guatemala, Haiti, and Mexico. There is evidence that bulk cash is entering Panama in several ways: concealed on the person or in the luggage of the courier; concealed in tractor trailers, airplanes, or vehicles; or secreted inside legitimate merchandise that has been routed to/through Panama.

Panama has the most sophisticated banking center in Latin America, with more than 120 banks from 35 countries. Evidence indicates that wire transfers are still being used to launder drug proceeds through Panamanian banks. DEA intelligence also reveals the continued, although decreasing, use of third-party checks to deposit illicit funds (almost always U.S. dollars) into Panamanian bank accounts, primarily by CFZ merchants.

DEA intelligence indicates that millions of U.S. dollars are being funneled through Panamanian businesses to drug organizations in the source country (usually Colombia). These funds are received by the Panamanian companies through wire transfers, traveler's checks, third-party checks, and cash drops. The funds are exchanged for merchandise, which is then exported to (and subsequently sold in) the source country. The money, which appears to be the product of the sale of legitimate merchandise, is then returned to the trafficker. (This practice is commonly referred to as the Black Market Peso Exchange.) Although other types of businesses are also used, the enterprises typically used to launder money are furniture stores, jewelry stores, and dealers in precious metals.

DEA intelligence indicates that drug traffickers are using Panamanian front companies to purchase real estate with illicit funds. In addition, DEA intelligence indicates that Panamanian businessmen are approached by Colombian, and sometimes Middle Eastern, organizations to facilitate the movement of funds through their legitimate companies, which are usually located in the CFZ.

² The *Latin America Monitor*, March 2002.

Recent DEA intelligence has indicated that money launderers are using Western Union and Moneygram money transfers to move illicit funds for Colombian drug traffickers. However, the cash limits imposed by these services make the use of this method cumbersome for large amounts of cash.

Outlook

Panama is, and will most likely remain, a haven for money laundering, as long as the enforcement of its financial regulations remains weak. However, if the GOP continues to implement, and fully enforces, its newly-enacted legislation, it will substantially decrease Panama's appeal as a haven for money launderers. Evidence of Panama's political will to achieve this end has already begun to surface.

Analyst Note: Any updated or additional information regarding money laundering in Panama would be appreciated. Please contact the Financial Investigative Intelligence Unit.